

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name	County
Fiscal Year End	Opinion Date	Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature <i>Hennrich A. Berthiaume</i>	Printed Name		License Number	

FRANKENLUST TOWNSHIP

Bay County, Michigan

FINANCIAL STATEMENTS

June 30, 2006

FRANKENLUST TOWNSHIP

TABLE OF CONTENTS

June 30, 2006

	PAGE
Independent Auditors' Report	1
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Assets	3
Statement of Activities	4
Fund Financial Statements	
Governmental Funds	
Balance Sheet.....	5
Reconciliation of Fund Balances of Governmental Funds to Net Assets of Governmental Activities	6
Statement of Revenues, Expenditures and Changes in Fund Balances.....	7
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	8
Proprietary Fund	
Statement of Net Assets	9
Statement of Revenues, Expenses, and Changes in Net Assets.....	10
Statement of Cash Flows.....	11
Fiduciary Fund	
Statement of Net Assets	12
Notes to Financial Statements	14
Required Supplemental Information	
Budgetary Comparison Schedule – General Fund	26
Budgetary Comparison Schedule – Trash Removal Fund	27
Other Supplemental Information	
General Fund	
Detailed Schedule of Revenues.....	29
Detailed Schedule of Expenditures	30
Nonmajor Governmental Funds	
Combining Balance Sheet.....	33
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	34
Fiduciary Fund	
Statement of Changes in Assets and Liabilities – Agency Fund.....	35
Schedules of Indebtedness	
Business-type Activities	36

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INDEPENDENT AUDITORS' REPORT

To the Township Board
Frankenlust Township, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Frankenlust Township as of and for the year ended June 30, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Frankenlust Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

A portion of the Township's Water and Sewer Fund is administered as an Agency Fund of the Bay County Department of Water and Sewer. This Township fund included in the financial statements of the Bay County Department of Water and Sewer is not included in the Township's basic financial statements as required by accounting principles generally accepted in the United States of America.

In our opinion, because of the effects of not including the Township's entire business-type activities in the basic financial statements, the financial statements referred to above do not purport to present fairly, the financial position of all fund types of Frankenlust Township as of June 30, 2006, and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In addition, in our opinion, except for the effects of not including all of the financial information for the Water and Sewer Fund, the financial statements referred to above present fairly in all material respects, the financial position of the governmental activities, each major fund, and aggregate remaining fund information of Frankenlust Township as of June 30, 2006, and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The budgetary comparison schedules are not required parts of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Frankenlust Township's basic financial statements. The accompanying other supplemental information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The accompanying financial statements do not present a management's discussion and analysis, which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that this analysis is necessary to supplement, although not required to be a part of, the basic financial statements.

Berthiaume & Co.

October 24, 2006

BASIC FINANCIAL STATEMENTS

FRANKENLUST TOWNSHIP

STATEMENT OF NET ASSETS

June 30, 2006

	<i>Governmental Activities</i>	<i>Business-type Activities</i>	<i>Total</i>
Assets:			
Cash and cash equivalents	\$ 726,966	\$ 964,960	\$ 1,691,926
Receivables	90,621	904,530	995,151
Restricted cash and cash equivalents	-	671,371	671,371
Capital assets:			
Nondepreciable capital assets	180,000	-	180,000
Depreciable capital assets, net	<u>411,391</u>	<u>5,069,207</u>	<u>5,480,598</u>
Total assets	<u>1,408,978</u>	<u>7,610,068</u>	<u>9,019,046</u>
Liabilities:			
Accounts payable and accrued expenses	68,130	52,724	120,854
Long-term liabilities:			
Due within one year	-	370,000	370,000
Due in more than one year	<u>-</u>	<u>4,430,000</u>	<u>4,430,000</u>
Total liabilities	<u>68,130</u>	<u>4,852,724</u>	<u>4,920,854</u>
Net assets:			
Invested in capital assets, net of related debt	591,391	269,207	860,598
Restricted for:			
Debt service	-	671,371	671,371
State construction code activities	190,121	-	190,121
Unrestricted	<u>559,336</u>	<u>1,816,766</u>	<u>2,376,102</u>
Total net assets	<u>\$ 1,340,848</u>	<u>\$ 2,757,344</u>	<u>\$ 4,098,192</u>

The accompanying notes are an integral part of these financial statements.

FRANKENLUST TOWNSHIP

STATEMENT OF ACTIVITIES

Year Ended June 30, 2006

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Functions/Programs				
<i>Governmental activities:</i>				
General government	\$ 270,757	\$ -	\$ 8,616	\$ (262,141)
Public safety	255,004	138,195	3,489	(113,320)
Public works	274,615	136,311	13,434	(124,870)
Community and economic development	24,564	5,125	-	(19,439)
Recreation and culture	10,481	-	-	(10,481)
Total governmental activities	<u>\$ 835,421</u>	<u>\$ 279,631</u>	<u>\$ 25,539</u>	<u>\$ (530,251)</u>
<i>Business-type activities:</i>				
Water and sewer	\$ 320,632	\$ 288,476	\$ 42,853	\$ 10,697
Total business-type activities	<u>\$ 320,632</u>	<u>\$ 288,476</u>	<u>\$ 42,853</u>	<u>\$ 10,697</u>

The accompanying notes are an integral part of these financial statements.

	<i>Governmental Activities</i>	<i>Business- type Activities</i>	<i>Total</i>
Changes in net assets			
Net (Expense) Revenue	\$ (530,251)	\$ 10,697	\$ (519,554)
General revenues:			
Taxes:			
Property taxes, levied for general purpose	183,200	-	183,200
Property taxes, levied for fire protection	74,716	-	74,716
Franchise fees	23,771	-	23,771
Grants and contributions not restricted to specific programs	173,714	-	173,714
Unrestricted investment earnings	29,338	59,674	89,012
Miscellaneous	15,163	-	15,163
Total general revenues	499,902	59,674	559,576
Change in net assets	(30,349)	70,371	40,022
Net assets, beginning of year, restated	1,371,197	2,686,973	4,058,170
Net assets, end of year	\$ 1,340,848	\$ 2,757,344	\$ 4,098,192

FRANKENLUST TOWNSHIP

GOVERNMENTAL FUNDS

BALANCE SHEET

June 30, 2006

	<i>General Fund</i>	<i>Trash Removal Fund</i>	<i>Nonmajor Governmental Funds</i>	<i>Total Governmental Funds</i>
Assets:				
Cash and cash equivalents	\$ 316,268	\$ 174,014	\$ 236,684	\$ 726,966
Taxes receivable	13,852	-	5,521	19,373
Accounts receivable	6,242	8,290	-	14,532
Due from other governmental units	56,716	-	-	56,716
Total assets	<u>\$ 393,078</u>	<u>\$ 182,304</u>	<u>\$ 242,205</u>	<u>\$ 817,587</u>
Liabilities and Fund Balances:				
Liabilities:				
Accounts payable	\$ 17,460	\$ 13,036	\$ 35,007	\$ 65,503
Accrued expenses	2,627	-	-	2,627
Total liabilities	<u>20,087</u>	<u>13,036</u>	<u>35,007</u>	<u>68,130</u>
Fund balances:				
Reserved for:				
State construction code activities	190,121	-	-	190,121
Unreserved:				
General fund	182,870	-	-	182,870
Special revenue funds	-	169,268	207,198	376,466
Total fund balances	<u>372,991</u>	<u>169,268</u>	<u>207,198</u>	<u>749,457</u>
Total liabilities and fund balances	<u>\$ 393,078</u>	<u>\$ 182,304</u>	<u>\$ 242,205</u>	<u>\$ 817,587</u>

The accompanying notes are an integral part of these financial statements.

FRANKENLUST TOWNSHIP

RECONCILIATION OF FUND BALANCES OF THE GOVERNMENTAL FUNDS TO NET ASSETS OF GOVERNMENTAL ACTIVITIES

June 30, 2006

Total fund balances for governmental funds	\$ 749,457
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Total net assets reported for governmental activities in the statement of
of net assets is different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported in the governmental funds.

Governmental capital assets	1,083,614	
Less accumulated depreciation	<u>(492,223)</u>	<u>591,391</u>

Net assets of governmental activities	\$ <u>1,340,848</u>
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The accompanying notes are an integral part of these financial statements.

FRANKENLUST TOWNSHIP

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended June 30, 2006

	<i>General Fund</i>	<i>Trash Removal Fund</i>	<i>Nonmajor Governmental Funds</i>	<i>Total Governmental Funds</i>
Revenues:				
Property taxes	\$ 183,200	\$ -	\$ 74,716	\$ 257,916
Licenses and permits	157,477	-	-	157,477
State grants	188,650	-	3,489	192,139
Charges for services	11,456	129,980	4,563	145,999
Interest and rents	19,153	5,348	4,837	29,338
Other revenue	22,203	-	-	22,203
Total revenues	<u>582,139</u>	<u>135,328</u>	<u>87,605</u>	<u>805,072</u>
Expenditures:				
Current				
General government	239,501	-	-	239,501
Public safety	219,817	-	39,716	259,533
Public works	119,153	155,462	-	274,615
Community and economic development	24,182	-	-	24,182
Recreation and culture	6,352	-	-	6,352
Other	25,614	-	-	25,614
Capital outlay	121,555	-	17,869	139,424
Total expenditures	<u>756,174</u>	<u>155,462</u>	<u>57,585</u>	<u>969,221</u>
Excess (deficiency) of revenues over expenditures	<u>(174,035)</u>	<u>(20,134)</u>	<u>30,020</u>	<u>(164,149)</u>
Other financing sources:				
Insurance recoveries	<u>-</u>	<u>-</u>	<u>34,756</u>	<u>34,756</u>
Total other financing sources	<u>-</u>	<u>-</u>	<u>34,756</u>	<u>34,756</u>
Net change in fund balances	(174,035)	(20,134)	64,776	(129,393)
Fund balances, beginning of year, restated	<u>547,026</u>	<u>189,402</u>	<u>142,422</u>	<u>878,850</u>
Fund balances, end of year	<u>\$ 372,991</u>	<u>\$ 169,268</u>	<u>\$ 207,198</u>	<u>\$ 749,457</u>

The accompanying notes are an integral part of these financial statements.

FRANKENLUST TOWNSHIP

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2006

Net change in fund balances - total governmental funds \$ (129,393)

Total change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives and reported as depreciation expense.

Capital outlay	136,820	
Less depreciation expense	<u>(37,776)</u>	<u>99,044</u>

Change in net assets of governmental activities \$ (30,349)

The accompanying notes are an integral part of these financial statements.

FRANKENLUST TOWNSHIP

PROPRIETARY FUND

STATEMENT OF NET ASSETS

June 30, 2006

	<i>Water and Sewer Fund</i>
Assets:	
<i>Current Assets:</i>	
Cash and cash equivalents	\$ 964,960
Special assessments receivable	<u>904,530</u>
Total current assets	<u>1,869,490</u>
<i>Noncurrent assets:</i>	
Restricted cash and cash equivalents	671,371
Capital assets:	
Depreciable capital assets, net	<u>5,069,207</u>
Total noncurrent assets	<u>5,740,578</u>
Total assets	<u>7,610,068</u>
Liabilities:	
<i>Current Liabilities:</i>	
Accounts payable	2,278
Accrued interest payable	50,446
Current portion of long-term debt	<u>370,000</u>
Total current liabilities	<u>422,724</u>
<i>Noncurrent liabilities:</i>	
Long-term debt	<u>4,430,000</u>
Total noncurrent liabilities	<u>4,430,000</u>
Total liabilities	<u>4,852,724</u>
Net assets:	
Invested in capital assets, net of related debt	269,207
Restricted for:	
Debt service	671,371
Unrestricted	<u>1,816,766</u>
Total net assets	<u>\$ 2,757,344</u>

The accompanying notes are an integral part of these financial statements.

FRANKENLUST TOWNSHIP

PROPRIETARY FUND

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Year Ended June 30, 2006

	<i>Water and Sewer Fund</i>
Operating revenues:	
Charges for hook-ups and connections	\$ 108,960
Total operating revenues	<u>108,960</u>
Operating expenses:	
Contracted services	4,404
Other services and supplies	10
Depreciation	<u>80,800</u>
Total operating expenses	<u>85,214</u>
Operating income (loss)	<u>23,746</u>
Non-operating revenues (expenses):	
Transfers from County water and sewer department	179,516
Special assessments/contracts interest	42,853
Interest income	59,674
Interest expense	<u>(235,418)</u>
Total non-operating revenues (expenses)	<u>46,625</u>
Net income (loss)	70,371
Net assets, beginning of year, restated	<u>2,686,973</u>
Net assets, end of year	<u>\$ 2,757,344</u>

The accompanying notes are an integral part of these financial statements.

FRANKENLUST TOWNSHIP

PROPRIETARY FUND

STATEMENT OF CASH FLOWS

Year Ended June 30, 2006

	<i>Water and Sewer Fund</i>
Cash flows from operating activities:	
Cash received from customers	\$ 209,815
Cash payments to suppliers for goods and services	<u>(529,044)</u>
Net cash used by operating activities	<u>(319,229)</u>
Cash flows from capital and related financing activities:	
Transfers from County water and sewer	179,516
Special assessments/contracts interest	42,853
Acquisition and construction of capital assets	(531,233)
Principal paid	(215,000)
Interest paid	<u>(235,418)</u>
Net cash used by capital and related financing activities	<u>(759,282)</u>
Cash flows from investing activities:	
Interest received	<u>59,674</u>
Net cash provided by investing activities	<u>59,674</u>
Net increase in cash and cash equivalents	<u>(1,018,837)</u>
Cash and cash equivalents, beginning of year	<u>2,655,168</u>
Cash and cash equivalents, end of year	<u>\$ 1,636,331</u>
Reconciliation of operating income to net cash used by operating activities:	
Operating income	\$ 23,746
Adjustments:	
Depreciation	80,800
Change in assets and liabilities:	
Special assessments receivable	100,855
Accounts payable	(522,947)
Accrued interest payable	<u>(1,683)</u>
Net cash used by operating activities	<u>\$ (319,229)</u>

The accompanying notes are an integral part of these financial statements.

FRANKENLUST TOWNSHIP

FIDUCIARY FUND

STATEMENT OF NET ASSETS

June 30, 2006

	<i>Agency Fund</i>
Assets:	
Cash and cash equivalents	<u>\$ 14,793</u>
Total assets	<u>14,793</u>
Liabilities:	
Accounts payable	<u>14,793</u>
Total liabilities	<u>14,793</u>
Net Assets:	
Unrestricted	<u>-</u>
Total net assets	<u><u>\$ -</u></u>

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

FRANKENLUST TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Frankenlust Township was established in 1881 and is located in Bay County, Michigan. Township government is directed by a five member Township Board.

The accounting policies of Frankenlust Township conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

Reporting Entity:

As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the Township and its component units. In evaluating the Township as a reporting entity, management has addressed all potential component units (traditionally separate reporting entities) for which the Township may be financially accountable and, as such, should be included within the Township's financial statements. The Township (the primary government) is financially accountable if it appoints a voting majority of the organization's governing board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial burden on the Township. Additionally, the primary government is required to consider other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. There are no component units included in the Township's reporting entity.

The basic financial statements do not include all of the Township's water and sewer operations as required by accounting principles generally accepted in the United States of America.

Joint Venture – Water and Sewer System:

Bay County Department of Water and Sewer: The Township is a participant in the Bay County Department of Water and Sewer (DWS). The DWS operates various water and sewer lines for the Township as well as approximately 12 other governmental units in Bay County. The water and sewer lines are constructed and financed under varying scenarios. Certain debts issued by the DWS are general obligations of Bay County; however, the DWS participants are primarily responsible for most of the DWS debt issues.

The DWS participants, including Frankenlust Township, have sole authority to set rates and are financially responsible for the integrity of their water and sewer systems operated by the Bay County DWS. The DWS only acts in a fiduciary capacity for the participants. The ownership of the water and sewer system capital assets and related debts resides with the local governmental units.

Financial Statements: The Township's Sewer and Water Funds that are handled as Agency Funds by the Bay County DWS are not included in these financial statements. Separate financial statements for these funds are available from Bay County Department of Water and Sewer, 3933 Patterson Road, Bay City, Michigan, 48706.

Joint Venture – The Bay Area Utilities Authority was formed in 1998 by Frankenlust Township, Pinconning Township and Williams Charter Township to issue bonds for the benefit of the participating townships. Frankenlust Township has two contracts payable with the Authority. These contracts payable are included as long-term debt in the Township's Water and Sewer Fund.

FRANKENLUST TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The accounts of the Township are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Government-wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The statement of net assets and the statement of activities report information on all of the nonfiduciary activities of the primary government and its component units. These statements distinguish between activities that are governmental and those that are business-type activities. Internal service fund activity is eliminated to avoid “doubling up” revenues and expenses.

The statement of net assets presents governmental activities on a consolidated basis, using the economic resources measurement focus and accrual basis of accounting. This method recognizes all long-term assets and receivables as well as long-term debt and obligations. The Township’s net assets are reported in three parts (1) invested in capital assets, net of related debt, (2) restricted net assets, and (3) unrestricted net assets. The Township first utilizes restricted resources to finance qualifying activities.

The statement of activities reports both the gross and net cost of each of the Township’s functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources and federal sources, interest income, etc.). The Township does not allocate indirect costs. In creating the government-wide financial statements the Township has eliminated interfund transactions.

The government-wide focus is on the sustainability of the Township as an entity and the change in the Township’s net assets resulting from current year activities.

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

FRANKENLUST TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise fees, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. All other revenue items are considered to be measurable and available only when cash is received by the government.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the Township's policy to use restricted resources first, then unrestricted resources as they are needed.

Fiduciary funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Fiduciary funds are accounted for on a spending or economic resources measurement focus and the accrual basis of accounting as are the proprietary funds.

The Township reports the following major governmental funds:

General Fund – The General Fund is the primary operating fund of the Township. It is used to account for all financial resources, except for those required to be accounted for in another fund.

Trash Removal Fund – The Trash Removal Fund is used to account for the fees collected from residents to provide trash removal services.

The Township reports the following major enterprise fund:

Water and Sewer Fund – The Water and Sewer Fund is used to account for some of the revenues and expenses for the operation of the Township's water and sewer system. This fund does not include the Township's water and sewer operations that are administered as an Agency Fund by the Bay County Water and Sewer Department.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do no conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for

FRANKENLUST TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

their business-type activities and enterprise funds, subject to this same limitation. The Township has elected not to follow subsequent private-sector guidance.

Assets, Liabilities, and Equity:

Deposits and Investments – Cash and cash equivalents include cash on hand, demand deposits, certificates of deposit and short term investments with a maturity of three months or less when acquired. Investments, if any, are stated at fair value. For purposes of the statement of cash flows, the Township considers all highly liquid investments (including restricted assets) with a maturity when purchased of three months or less and all local government investment pools, if any, to be cash equivalents.

Restricted Assets – Certain resources set aside for repayment of bonds and to meet bond covenants, are classified as restricted assets on the statement of net assets because their use is limited by applicable bond covenants.

Receivables and Payables – Generally, outstanding amounts owed between funds are classified as “due from/to other funds”. These amounts are caused by transferring revenues and expenses between funds to get them into the proper reporting fund. These balances are paid back as cash flow permits.

Prepaid Expenses – Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid expenses in both the government-wide and fund financial statements.

Capital Assets – Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair market value at the date of donation. The Township defines capital assets as assets with an initial individual cost in excess of \$5,000. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. Public domain (infrastructure) assets (e.g., roads, bridges, sidewalks and other assets that are immovable and of value only to the government) are capitalized if acquired after July 1, 2003. Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	20-50 years
Equipment	5-25 years
Land improvements	20 years
Site improvements	20 years
Water and sewer system	50 years

Compensated Absences – Township employees are not permitted to accumulate vacation and sick pay; therefore, no liability is recorded in the government-wide financial statements or the proprietary fund financial statements.

Long-term Obligations – In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

FRANKENLUST TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Eliminations and Reclassifications:

In the process of aggregating data for the statement of net assets and the statement of activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables, if any, were eliminated to minimize the “grossing up” effect on assets and liabilities within the governmental and business-type activities columns.

Property Taxes:

Properties are assessed as of December 31 and the related property taxes attach as an enforceable lien on property as of December 1 of the following year. These taxes are due on or before February 14 with the final collection date of February 28 before they are added to the county tax rolls.

The 2005 taxable valuation of the Township totaled \$117,399,444, on which ad valorem taxes levied consisted of 1.2313 mills for the Township’s operating purposes and .6420 mills for fire.

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information:

The Township follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to the beginning of the fiscal year, the proposed operating budget for each budgetary fund is submitted to the Township Board for consideration.
2. The proposed budgets include expenditures as well as the methods of financing them.
3. Public hearings are conducted to obtain taxpayer comments.
3. The budgets are adopted at the activity level by a majority voted of the Township Board.
4. The adopted budgets are used as a management control device during the year for all budgetary funds.
5. Governmental fund budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. A comparison of actual results of operations to the General Fund budget and Trash Removal Fund as originally adopted and amended by the Township Board is included in the required supplemental information.
6. All annual appropriations lapse at fiscal year end.

Excess of Expenditures over Appropriations in Budgeted Funds:

During the year, the Township incurred expenditures of \$462 in excess of the amount budgeted in the Trash Fund.

FRANKENLUST TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

State Construction Code Act:

The Township oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The Township charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative surplus generated since January 1, 2000 is as follows:

Cumulative surplus at July 1, 2005		\$	201,492
Current year building permit revenue			133,632
Related expenses:			
Direct costs	137,458		
Indirect costs	<u>7,545</u>		<u>145,003</u>
Cumulative surplus at June 30, 2006		\$	<u>190,121</u>

NOTE 3: DEPOSITS AND INVESTMENTS

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency of instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

Custodial Credit Risk of Bank Deposits:

Custodial credit risk is the risk that in the event of a bank failure, the Township's deposits may not be returned. The Township does not have a deposit policy for custodial credit risk. At year-end, the Township had \$2,368,584 of bank deposits (certificates of deposit, checking and savings accounts), of which \$636,000 was covered by federal depository insurance and the remainder was uninsured and uncollateralized. Of the balance uninsured and uncollateralized, \$267,524 is maintained in sweep accounts. The Township believes that due to the dollar amounts of cash deposits, and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Township evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with acceptable estimated risk level are used as depositories.

FRANKENLUST TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE 4: CAPITAL ASSETS

Capital assets activity of the Township's governmental and business-type activities at June 30, 2006 was as follows:

	<i>July 1, 2005</i>	<i>Additions</i>	<i>Disposals</i>	<i>June 30, 2006</i>
Governmental activities:				
Nondepreciable capital assets				
Land	\$ 130,000	\$ 50,000	\$ -	\$ 180,000
Depreciable capital assets				
Buildings and improvements	326,399	12,150	-	338,549
Equipment	464,395	20,598	-	484,993
Land improvements	-	35,401	-	35,401
Site improvements	-	18,671	-	18,671
Vehicles	26,000	-	-	26,000
Total depreciable capital assets	816,794	86,820	-	903,614
Accumulated depreciation	(454,447)	(37,776)	-	(492,223)
Depreciable capital assets, net	362,347	49,044	-	411,391
Governmental activities, capital assets, net	<u>\$ 492,347</u>	<u>\$ 99,044</u>	<u>\$ -</u>	<u>\$ 591,391</u>
Business-type activities:				
Nondepreciable capital assets				
Land	\$ -	\$ -	\$ -	\$ -
Depreciable capital assets				
Water and sewer system	\$ 5,246,524	\$ 531,233	\$ -	\$ 5,777,757
Total depreciable capital assets	5,246,524	531,233	-	5,777,757
Accumulated depreciation	(627,750)	(80,800)	-	(708,550)
Depreciable capital assets, net	4,618,774	450,433	-	5,069,207
Business-type activities, capital assets, net	<u>\$ 4,618,774</u>	<u>\$ 450,433</u>	<u>\$ -</u>	<u>\$ 5,069,207</u>

Depreciation expense was charged to programs of the governmental and business-type activities as follows:

Governmental activities:	
General government	\$ 9,018
Public safety	27,233
Recreation and culture	1,525
Total governmental activities	<u>\$ 37,776</u>

Business-type activities:	
Water and sewer	\$ 80,800
Total business-type activities	<u>\$ 80,800</u>

FRANKENLUST TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE 5: DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned.

At year end, the Township had no deferred revenue.

NOTE 6: LONG-TERM LIABILITIES

The Township may issue bonds, loans, notes and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the Township. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Long-term liabilities at June 30, 2006 consisted of the following:

<u>Types of Indebtedness</u>	<u>Maturity</u>	<u>Interest Rates</u>	<u>Annual Principal Payments</u>	<u>Original Issue Amount</u>	<u>Balance at Year-End</u>
Business-type Activities					
Revenue Refunding Bonds:					
1999 Series - Water and Sewer System					
Revenue Refunding Bonds	11/1/05-11/1/21	4.05-5.2%	\$30,000-60,000	\$ 870,000	\$ 695,000
General Obligation Bonds:					
1999 Contract - Water and Sewer System					
System No. 1 Bonds	5/1/06-5/1/12	4.8-5.3%	\$185,000-435,000	\$ 3,170,000	\$ 2,305,000
2005 Contract - Water and Sewer System					
System No. 2 Bonds	9/1/07-9/1/25	3.0-4.5%	\$30,000-145,000	\$ 1,800,000	\$ 1,800,000

The following is a summary of long-term liabilities transactions for the year ended June 30, 2006:

	<u>July 1, 2005</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2006</u>	<u>Due Within One Year</u>
Business-type activities:					
Revenue Refunding Bonds					
1999 Issue	\$ 725,000	\$ -	\$ (30,000)	\$ 695,000	\$ 30,000
General Obligation Bonds					
1999 Contract	2,490,000	-	(185,000)	2,305,000	340,000
2005 Contract	1,800,000	-	-	1,800,000	-
Total business-type activities					
- long-term liabilities	<u>\$ 5,015,000</u>	<u>\$ -</u>	<u>\$ (215,000)</u>	<u>\$ 4,800,000</u>	<u>\$ 370,000</u>

FRANKENLUST TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Annual debt service requirements to maturity for all outstanding debt as of June 30, 2006 are as follows:

<i>Year Ended</i>	<i>Business-type Activities</i>		
	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2007	\$ 370,000	\$ 226,466	\$ 596,466
2008	415,000	208,096	623,096
2009	440,000	188,088	628,088
2010	470,000	166,723	636,723
2011	500,000	143,707	643,707
2012-2016	1,050,000	449,980	1,499,980
2017-2021	820,000	266,963	1,086,963
2022-2026	<u>735,000</u>	<u>79,748</u>	<u>814,748</u>
	<u>\$ 4,800,000</u>	<u>\$ 1,729,771</u>	<u>\$ 6,529,771</u>

NOTE 7: DISAGGREGATED RECEIVABLE AND PAYABLE BALANCES

Receivables and payables as of year end for the Township's governmental and business-type activities in the aggregate are as follows:

	<i>Governmental Activities</i>	<i>Business-type Activities</i>	<i>Total</i>
Receivables:			
Property taxes	\$ 19,373	\$ -	\$ 19,373
Accounts	14,532	-	14,532
Special assessments	-	904,530	904,530
Intergovernmental	<u>56,716</u>	<u>-</u>	<u>56,716</u>
Total receivables	<u>\$ 90,621</u>	<u>\$ 904,530</u>	<u>\$ 995,151</u>
Accounts payable and accrued expenses:			
Accounts	\$ 65,503	\$ 2,278	\$ 67,781
Payroll liabilities	2,627	-	2,627
Accrued interest	<u>-</u>	<u>50,446</u>	<u>50,446</u>
Total accounts payable and accrued expenses	<u>\$ 68,130</u>	<u>\$ 52,724</u>	<u>\$ 120,854</u>

NOTE 8: INTERFUND BALANCES AND TRANSFERS

There are no interfund receivable and payable balances at June 30, 2006.

There were no interfund transfers during 2006.

FRANKENLUST TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE 9: RISK MANAGEMENT

The Township is exposed to various risks of loss related to property loss, torts, errors, omissions, and injuries to employees (workers' compensation). The Township has purchased commercial insurance for property loss, torts and workers' compensation claims. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

NOTE 10: EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS

Pension Plan:

The Township has a defined contribution plan covering employees who are elected officials and the Township secretary. The Township contributes 15% of each participant's projected compensation based on a calendar year basis. The third-party plan administrator is Burnham & Flower Insurance Group. Pension expense for the calendar year ended December 31, 2006 was \$15,110.

Post Employment Benefits:

The Township does not offer any post employment benefits to its retirees.

Deferred Compensation Plan:

The Township offers its employees a voluntary deferred compensation plan created in accordance with IRC Section 457. The plan, available to all employees, permits them to defer a portion of their current salary until future years. The deferred compensation is not available to the employees until termination, retirement, death or unforeseeable emergency.

NOTE 11: PRIOR PERIOD ADJUSTMENTS

Fund Financial Statements:

Beginning fund balances/net assets were restated to recognize receivables, capital assets and payables at June 30, 2005. In addition, the Building Department Fund was shown as a separate fund at June 30, 2005; it is now accounted for in the General Fund.

The prior period adjustments are as follows:

General Fund:

Fund balance, as stated, at 6/30/05	\$ 289,914
Add: Fund balance of Building Department, as restated, at 6/30/05	201,492
Add: Receivables (state revenue sharing, metro act fees and cable franchise fees)	67,495
Deduct: Accounts payable and accrued expenses	<u>(11,875)</u>
Fund balance, as restated, at 6/30/05	<u>\$ 547,026</u>

FRANKENLUST TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Trash Removal Fund:

Fund balance, as stated, at 6/30/05	\$ 201,724
Deduct: Accounts payable	<u>(12,322)</u>
Fund balance, as restated, at 6/30/05	<u>\$ 189,402</u>

Building Department Fund:

Fund balance, as stated, at 6/30/05	\$ 210,287
Deduct: Accounts payable	(8,795)
Deduct: Fund balance combined with General Fund	<u>(201,492)</u>
Fund balance, as restated, at 6/30/05	<u>\$ -</u>

Water and Sewer Fund:

Net assets, as stated, at 6/30/05	\$ 1,739,271
Add: Special assessments receivables	999,830
Add: Capital asset addition	525,225
Deduct: Accounts payable	(525,225)
Deduct: Accrued interest payable on bonds	<u>(52,128)</u>
Net assets, as restated, at 6/30/05	<u>\$ 2,686,973</u>

Government-wide Financial Statements:

Prior period adjustments affecting the beginning fund balance/net assets of the fund financial statements also affect the beginning net assets of the government-wide financial statements.

The effect of the prior period adjustments on beginning net assets is as follows:

Governmental Activities:

Net assets, as stated, at 6/30/05	\$ 1,336,694
Add: Net of receivables and payables of General Fund and Trash Removal Fund	<u>34,503</u>
Net assets, as restated, at 6/30/05	<u>\$ 1,371,197</u>

Business-type Activities:

Net assets, as stated, at 6/30/05	\$ 1,739,271
Add: Net of receivables, capital assets and payables of Water and Sewer Fund	<u>947,702</u>
Net assets, as restated, at 6/30/05	<u>\$ 2,686,973</u>

REQUIRED SUPPLEMENTAL INFORMATION

FRANKENLUST TOWNSHIP

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2006

	<i>Budgeted Amounts</i>			<i>Actual Over (Under)</i>
	<i>Original</i>	<i>Final</i>	<i>Actual</i>	<i>Final Budget</i>
Revenues:				
Property taxes	\$ 174,000	\$ 174,000	\$ 183,200	\$ 9,200
Licenses and permits	184,100	184,100	157,477	(26,623)
State grants	181,000	181,000	188,650	7,650
Charges for services	11,500	11,500	11,456	(44)
Interest	13,000	13,000	19,152	6,152
Other revenue	24,300	24,300	22,203	(2,097)
Total revenues	587,900	587,900	582,138	(5,762)
Expenditures:				
Current				
General government	267,750	250,550	239,501	(11,049)
Public safety	255,700	243,700	219,817	(23,883)
Public works	122,400	126,400	119,153	(7,247)
Community and economic development	25,000	30,000	24,182	(5,818)
Recreation and culture	2,000	6,400	6,352	(48)
Other	36,000	26,800	25,614	(1,186)
Capital outlay	97,000	122,000	121,555	(445)
Total expenditures	805,850	805,850	756,174	(49,676)
Net change in fund balance	(217,950)	(217,950)	(174,036)	43,914
Fund balance, beginning of year, restated	547,026	547,026	547,026	-
Fund balance, end of year	\$ 329,076	\$ 329,076	\$ 372,990	\$ 43,914

FRANKENLUST TOWNSHIP

TRASH REMOVAL FUND

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2006

	<i>Budgeted Amounts</i>			<i>Actual Over (Under)</i>
	<i>Original</i>	<i>Final</i>	<i>Actual</i>	<i>Final Budget</i>
Revenues:				
Charges for services	\$ 120,000	\$ 120,000	\$ 129,980	\$ 9,980
Interest	-	-	5,348	5,348
Total revenues	<u>120,000</u>	<u>120,000</u>	<u>135,328</u>	<u>15,328</u>
Expenditures:				
Current				
Public works	<u>130,000</u>	<u>155,000</u>	<u>155,462</u>	<u>462</u>
Total expenditures	<u>130,000</u>	<u>155,000</u>	<u>155,462</u>	<u>462</u>
Net change in fund balance	(10,000)	(35,000)	(20,134)	14,866
Fund balance, beginning of year, restated	<u>189,402</u>	<u>189,402</u>	<u>189,402</u>	-
Fund balance, end of year	<u>\$ 179,402</u>	<u>\$ 154,402</u>	<u>\$ 169,268</u>	<u>\$ 14,866</u>

OTHER SUPPLEMENTAL INFORMATION

FRANKENLUST TOWNSHIP

GENERAL FUND

DETAILED SCHEDULE OF REVENUES

Year Ended June 30, 2006

Current taxes:

Property taxes	\$ 143,306
Administration fees	39,894
	<u>183,200</u>

Licenses and permits:

Nonbusiness licenses and permits	133,706
CATV franchise fees	23,771
	<u>157,477</u>

State grants:

Summer tax collection reimbursement	8,616
State revenue sharing - sales tax	173,714
Metro Act Authority	6,320
	<u>188,650</u>

Charges for services:

Zoning fees	5,125
Other	6,331
	<u>11,456</u>

Interest:

Interest	<u>19,153</u>
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Other revenue:

Special assessments	7,114
Reimbursements	13,675
Other	1,414
	<u>22,203</u>

Total revenues	<u><u>\$ 582,139</u></u>
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FRANKENLUST TOWNSHIP

GENERAL FUND

DETAILED SCHEDULE OF EXPENDITURES

Year Ended June 30, 2006

General Government:

Board:

Personnel	\$ 8,500
Fringe benefits	791
Contracted services	3,263
Mileage	100
Dues and subscriptions	2,940
Education and training	777
Printing and publishing	4,764
Other	631
	<u>21,766</u>

Supervisor:

Personnel	24,500
Supplies	387
Mileage	910
Education and training	76
	<u>25,873</u>

Clerk:

Personnel	26,650
Supplies	1,492
Mileage	1,065
Education and training	909
Repairs and maintenance	2,521
	<u>32,637</u>

Audit:

Contracted services	<u>3,000</u>
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Board of Review:

Contracted services	<u>1,134</u>
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Treasurer:

Personnel	29,500
Supplies	4,410
Contracted services	70
Mileage	824
Education and training	1,107
	<u>35,911</u>

Elections:

Supplies	1,422
Contracted services	1,070
	<u>2,492</u>

FRANKENLUST TOWNSHIP

GENERAL FUND

DETAILED SCHEDULE OF EXPENDITURES, CONTINUED

Year Ended June 30, 2006

General Government (continued):

Assessor:

Personnel	5,000
Supplies	599
Contracted services	26,679
Mileage	168
	<u>32,446</u>

Buildings and Grounds:

Personnel	16,197
Supplies	6,120
Contracted services	6,865
Telephone	3,814
Utilities	10,188
Repairs and maintenance	18,921
	<u>62,105</u>

Attorney:

Contracted services	<u>22,137</u>
Total general government	<u>239,501</u>

Public Safety:

Sheriff Patrol:

Contracted services	<u>3,896</u>
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Fire:

Personnel	39,139
Supplies	3,445
Contracted services	1,551
Education and training	684
Insurance	18,660
Repairs and maintenance	14,984
	<u>78,463</u>

Inspection Services:

Personnel	92,803
Contracted services	22,137
Mileage	1,115
Education and training	1,593
Insurance	13,128
Other	6,682
	<u>137,458</u>

Total public safety	<u>219,817</u>
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Public Works:

Drains:

Contracted services	<u>1,231</u>
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FRANKENLUST TOWNSHIP

GENERAL FUND

DETAILED SCHEDULE OF EXPENDITURES, CONTINUED

Year Ended June 30, 2006

Public Works (continued):

Roads:

Contracted services	97,208
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Street Lighting:

Utilities	9,708
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Other:

Contracted services	9,797
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Utilities	548
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Repairs and maintenance	661
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11,006

Total public works	119,153
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Community and Economic Development:

Planning and Zoning:

Personnel	11,265
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Supplies	591
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Contracted services	12,326
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24,182

Total community and economic development	24,182
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Recreation and Culture:

Parks and Recreation:

Repairs and maintenance	5,555
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Other	797
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6,352

Total recreation and culture	6,352
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Other:

Insurance	3,282
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Retirement	15,705
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Payroll taxes	6,627
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25,614

Total other	25,614
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Capital Outlay:

General government	16,433
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Recreation and culture	105,122
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121,555

Total capital outlay	121,555
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Total expenditures	\$ 756,174
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FRANKENLUST TOWNSHIP

NONMAJOR GOVERNMENTAL FUNDS

COMBINING BALANCE SHEET

June 30, 2006

	<i>Fire Equipment Fund</i>	<i>Emergency Service Fund</i>	<i>Liquor Fund</i>	<i>Historical Fund</i>	<i>Total</i>
Assets:					
Cash and cash equivalents	\$ 219,970	\$ 9,857	\$ 3,016	\$ 3,841	\$ 236,684
Taxes receivable	<u>5,521</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,521</u>
Total assets	<u>\$ 225,491</u>	<u>\$ 9,857</u>	<u>\$ 3,016</u>	<u>\$ 3,841</u>	<u>\$ 242,205</u>
Liabilities and Fund Balances:					
Liabilities:					
Accounts payable	<u>\$ 35,007</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 35,007</u>
Total liabilities	<u>35,007</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>35,007</u>
Fund balances:					
Unreserved:					
Special revenue funds	<u>190,484</u>	<u>9,857</u>	<u>3,016</u>	<u>3,841</u>	<u>207,198</u>
Total fund balances	<u>190,484</u>	<u>9,857</u>	<u>3,016</u>	<u>3,841</u>	<u>207,198</u>
Total liabilities and fund balances	<u>\$ 225,491</u>	<u>\$ 9,857</u>	<u>\$ 3,016</u>	<u>\$ 3,841</u>	<u>\$ 242,205</u>

FRANKENLUST TOWNSHIP

NONMAJOR GOVERNMENTAL FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended June 30, 2006

	<i>Fire Equipment Fund</i>	<i>Emergency Service Fund</i>	<i>Liquor Fund</i>	<i>Historical Fund</i>	<i>Total</i>
Revenues:					
Property taxes	\$ 74,716	\$ -	\$ -	\$ -	\$ 74,716
State grants	-	-	3,489	-	3,489
Charges for services	-	4,563	-	-	4,563
Interest and rents	4,807	19	-	11	4,837
Total revenues	<u>79,523</u>	<u>4,582</u>	<u>3,489</u>	<u>11</u>	<u>87,605</u>
Expenditures:					
Current					
Public safety	35,181	1,319	3,216	-	39,716
Capital outlay	16,315	-	-	1,554	17,869
Total expenditures	<u>51,496</u>	<u>1,319</u>	<u>3,216</u>	<u>1,554</u>	<u>57,585</u>
Excess (deficiency) of revenues over expenditures	<u>28,027</u>	<u>3,263</u>	<u>273</u>	<u>(1,543)</u>	<u>30,020</u>
Other financing sources:					
Insurance recoveries	34,756	-	-	-	34,756
Total other financing sources	<u>34,756</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>34,756</u>
Net change in fund balances	62,783	3,263	273	(1,543)	64,776
Fund balances, beginning of year	<u>127,701</u>	<u>6,594</u>	<u>2,743</u>	<u>5,384</u>	<u>142,422</u>
Fund balances, end of year	<u>\$ 190,484</u>	<u>\$ 9,857</u>	<u>\$ 3,016</u>	<u>\$ 3,841</u>	<u>\$ 207,198</u>

FRANKENLUST TOWNSHIP

FIDUCIARY FUND – AGENCY FUND

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

June 30, 2006

	<u>July 1, 2005</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2006</u>
Current Tax Collection Fund				
Assets:				
Cash and cash equivalents	<u>\$ 5,947</u>	<u>\$ 3,693,202</u>	<u>\$ 3,684,356</u>	<u>\$ 14,793</u>
Liabilities:				
Accounts payable	\$ 58	\$ 527,951	\$ 513,216	\$ 14,793
Due to other governmental units	<u>5,889</u>	<u>3,165,251</u>	<u>3,171,140</u>	<u>-</u>
Total liabilities	<u>\$ 5,947</u>	<u>\$ 3,693,202</u>	<u>\$ 3,684,356</u>	<u>\$ 14,793</u>

FRANKENLUST TOWNSHIP

BUSINESS-TYPE ACTIVITIES

SCHEDULE OF INDEBTEDNESS

June 30, 2006

1999 Water and Sewer Refunding Bonds

Bond payable to Michigan Municipal Bond Authority

Issued dated February 9, 1999 in the amount of \$ 870,000

Less: Principal paid in prior years (145,000)
 Principal paid in current year (30,000)

Balance payable at June 30, 2006 \$ 695,000

Balance payable as follows:

<i>Fiscal</i> <i>Year Ended</i>	<i>Interest Rate</i>	<i>Principal due</i> <i>November 1</i>	<i>Interest due</i> <i>November 1</i>	<i>Interest due</i> <i>May 1</i>	<i>Total</i> <i>Annual</i> <i>Requirement</i>
2007	4.15%	\$ 30,000	\$ 17,037	\$ 16,415	\$ 63,452
2008	4.25%	30,000	16,415	15,777	62,192
2009	4.30%	30,000	15,777	15,132	60,909
2010	4.40%	35,000	15,132	14,362	64,494
2011	4.50%	35,000	14,362	13,575	62,937
2012	4.60%	35,000	13,575	12,770	61,345
2013	4.70%	40,000	12,770	11,830	64,600
2014	5.00%	40,000	11,830	10,830	62,660
2015	5.00%	45,000	10,830	9,705	65,535
2016	5.00%	45,000	9,705	8,580	63,285
2017	5.20%	50,000	8,580	7,280	65,860
2018	5.20%	50,000	7,280	5,980	63,260
2019	5.20%	55,000	5,980	4,550	65,530
2020	5.20%	55,000	4,550	3,120	62,670
2021	5.20%	60,000	3,120	1,560	64,680
2022	5.20%	60,000	1,560	-	61,560
		<u>\$ 695,000</u>	<u>\$ 168,503</u>	<u>\$ 151,466</u>	<u>\$ 1,014,969</u>

BUSINESS-TYPE ACTIVITIES

SCHEDULE OF INDEBTEDNESS

June 30, 2006

1999 Water and Sewer System No. 1 Bonds
Contract payable to Bay Area Utilities Authority

Issued dated August 24, 1999 in the amount of	\$ 3,170,000
Less: Principal paid in prior years	(680,000)
Principal paid in current year	<u>(185,000)</u>
Balance payable at June 30, 2006	<u>\$ 2,305,000</u>

Balance payable as follows:

<i>Fiscal</i> <i>Year Ended</i>	<i>Interest Rate</i>	<i>Interest due</i> <i>November 1</i>	<i>Principal due</i> <i>May 1</i>	<i>Interest due</i> <i>May 1</i>	<i>Total</i> <i>Annual</i> <i>Requirement</i>
2007	4.90%	\$ 58,712	\$ 340,000	\$ 58,712	\$ 457,424
2008	5.00%	50,382	355,000	50,382	455,764
2009	5.00%	41,507	375,000	41,507	458,014
2010	5.10%	32,132	390,000	32,132	454,264
2011	5.20%	22,187	410,000	22,187	454,374
2012	5.30%	<u>11,527</u>	<u>435,000</u>	<u>11,527</u>	<u>458,054</u>
		<u>\$ 216,447</u>	<u>\$ 2,305,000</u>	<u>\$ 216,447</u>	<u>\$ 2,737,894</u>

BUSINESS-TYPE ACTIVITIES

SCHEDULE OF INDEBTEDNESS

June 30, 2006

2005 Sanitary Sewer System No. 2 Bonds
Contract payable to Bay Area Utilities Authority

Issued dated March 1, 2005 in the amount of \$ 1,800,000

Less: Principal paid in prior years -

 Principal paid in current year -

Balance payable at June 30, 2006 \$ 1,800,000

Balance payable as follows:

<i>Fiscal</i> <i>Year Ended</i>	<i>Interest Rate</i>	<i>Principal due</i> <i>September 1</i>	<i>Interest due</i> <i>September 1</i>	<i>Interest due</i> <i>March 1</i>	<i>Total</i> <i>Annual</i> <i>Requirement</i>
2007	3.00%	\$ -	\$ 37,794	\$ 37,794	\$ 75,588
2008	3.00%	30,000	37,794	37,344	105,138
2009	3.00%	35,000	37,344	36,819	109,163
2010	3.00%	45,000	36,819	36,144	117,963
2011	3.25%	55,000	36,144	35,250	126,394
2012	4.00%	65,000	35,250	33,950	134,200
2013	4.00%	75,000	33,950	32,450	141,400
2014	4.00%	85,000	32,450	30,750	148,200
2015	4.00%	90,000	30,750	28,950	149,700
2016	4.00%	95,000	28,950	27,050	151,000
2017	4.00%	100,000	27,050	25,050	152,100
2018	4.00%	105,000	25,050	22,950	153,000
2019	4.50%	110,000	22,950	20,475	153,425
2020	4.50%	115,000	20,475	17,888	153,363
2021	4.50%	120,000	17,888	15,188	153,076
2022	4.50%	125,000	15,188	12,375	152,563
2023	4.50%	130,000	12,375	9,450	151,825
2024	4.50%	135,000	9,450	6,413	150,863
2025	4.50%	140,000	6,413	3,263	149,676
2026	4.50%	<u>145,000</u>	<u>3,263</u>	<u>-</u>	<u>148,263</u>
		<u><u>\$ 1,800,000</u></u>	<u><u>\$ 507,347</u></u>	<u><u>\$ 469,553</u></u>	<u><u>\$ 2,776,900</u></u>



October 24, 2006

To The Township Board
Frankenlust Township, Michigan

We have audited the financial statements of Frankenlust Township for the year ended June 30, 2006. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

We conducted our audit of the financial statements of Frankenlust Township in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

For this purpose, materiality has been defined as “the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement.”

An independent auditor’s objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor’s work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, “in our opinion.”

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Frankenlust Township are described in Note 1 to the financial statements. We noted no transactions entered into by Frankenlust Township during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Other Communications

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management’s current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time.

Comments and Recommendations

Cash Reconciliation:

We found that the general fund cash account balance had not been fully reconciled to the bank balance as of June 30, 2006. A difference between the book balance and the bank balance, it appears, has been carried over from some prior year(s).

Good internal control procedures require that all cash accounts be reconciled each month end.

We recommend that the Treasurer prepare a monthly cash account reconciliation and agree the balances fully with the clerk's month end balances.

State Construction Code:

As of June 30, 2006, the Township is reporting a balance of \$190,121 in reserved money, representing accumulated building permit revenues in excess of related Building Department expenditures since July 1, 2000.

The State of Michigan Construction Code Act, since July 1, 2000, requires that these revenues can only be used for construction code costs, including an allocation of estimated overhead costs.

We suggest the Township prepare a review or analysis of its Construction Code revenues and expenditures since July 1, 2000 to determine the correctness of the June 30, 2006 reported balance of \$190,121.

In addition, we suggest that the Township's current Construction Code fee schedule be reviewed and adjusted, if necessary, in order to reduce the future accumulation of excess Construction Code revenues.

Chart of Accounts:

The Township, in its general ledger accounting, is not using the required State Uniform Chart of Accounts for local units of government.

Also, the Township is not using a "fund accounting" general ledger system. The Township currently is using QuickBooks software, which is a program designed for businesses.

The Michigan Department of Treasury regulations require that local units of government use the Uniform Chart of Accounts in a fund accounting system.

We recommend that the Township consider a change in its accounting system in order to comply with State requirements.

Sewer and Water Funds:

Our report on the June 30, 2006 financial statements was qualified because all of the Township's Sewer and Water activities are not included. The following qualifying statements were made:

“A portion of the Township's Water and Sewer Fund is administered as an Agency Fund of the Bay County Department of Water and Sewer. This Township fund included in the financial statements of the Bay County Department of Water and Sewer is not included in the Township's basic financial statements as required by accounting principles generally accepted in the United States of America.”

“In our opinion, because of the effects of not including the Township's entire business-type activities in the basic financial statements, the financial statements referred to above do not purport to present fairly, the financial position of all fund types of Frankenlust Township as of June 30, 2006, and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.”

In order to avoid this qualification in the future, it is required that the Township's Water and Sewer funds, that are handled by the County Department of Water and Sewer, be combined with and included in its financial statements.

We recommend that the Township approve the inclusion of all of its Sewer and Water Funds in its future audited financial statements.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the Township's financial statements and this communication of these matters does not affect our report on the financial statements, dated October 24, 2006.

Summary

We welcome any questions you may have regarding the foregoing.

Sincerely,

Berthiaume & Co.

Berthiaume & Company
Certified Public Accountants